

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 IO-10 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 XMB-02 OPIC-03 /120 W  
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P R 171230Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 1546

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

USDEL MTN GENEVA

AMEMBASSY ROME

AMEMBASSY BUENOS AIRES

AMEMBASSY MADRID

AMEMBASSY BRUSSELS

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMCONSUL PORTO ALEGRE

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 8126

E.O. 11652: N/A

TAGS: EIND, BR

SUBJECT: INDUSTRY DATA ON BRAZIL'S SHOE INDUSTRY

REF: (A) STATE 204326; (B) BRASILIA 7936 (NOTAL)

1. THE FOLLOWING REPORT ON THE BRAZILIAN SHOE INDUSTRY  
WAS PREPARED BY CONGEN SAO PAULO FROM SAO PAULO AND RIO  
SOURCES. ADDITIONAL MATERIAL, PARTICULARLY MORE UP-TO-DATE  
STATISTICS, IS BEING GATHERED BY OUR CONSULATE IN PORTO  
ALEGRE WHICH WILL BE THE SUBJECT OF A SUBSEQUENT AIRGRAM.

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I - BRAZIL'S SHOE INDUSTRY IS COMPOSED OF SEVERAL HUNDRED SMALL AND MEDIUM SIZED MANUFACTURING PLANTS, MOST LOCATED IN THE STATE OF SAO PAULO AND RIO GRANDE DO SUL. SOME LIMITED OUTPUT IN CANVASS TOP SHORES COMES FROM STATE OF SANTA CATARINA. THE TWO MAJOR PRODUCING CENTERS ARE THE TOWNS OF FRANCA, STATE OF SAO PAULO, AND NOVO HAMBURGO, RIO GRANDE DO SUL. THERE ARE SOME 360 MANUFACTURING PLANTS IN FRANCA WITH ONLY 10 FACTORIES EMPLOYING MORE THAN 100 WORKERS. THERE ARE ALSO A NUMBER OF SMALL SHOE MANUFACTURING PLANTS IN THE GREATER SAO PAULO AREA, POSSIBLY 700 TO 800 FIRMS. THE STATE OF SAO PAULO SUPPLIES 30 PERCENT OF BRAZIL'S TOTAL SHOE INDUSTRY REQUIREMENTS OF LEATER. OTHER LEATHER SUPPLIERS ARE THE STATES OF RIO DE JANEIRO (EX GUANABARA) - 13 PERCENT; RIO GRANDE DO SUL - 12 PERCENT; MATO GROSSO - 10 PERCENT; GOIAS - 10 PERCENT, AND PARANA - 4 TO 5 PERCENT.

UNTIL FIVE YEARS AGO MOST OF THE SHOE MANUFACTURING BUSINESSES WERE SMALL FAMILY-OWNED AFFAIRS WITH OBSOLETE EQUIPMENT BRAZIL'S TAKE-OFF IN THE SHOE INDUSTRY STARTED AT THE END OF THE '60S AND SINCE THEN, AT LEAST IN SAO PAULO, THE INDUSTRY HAS MODERNIZED AND RATIONALIZED PRODUCTION, ALTHOUGH MANAGEMENT AND QUALITY CONTROLS STILL APPARENTLY LEAVE MUCH TO BE DESIRED. IN THE PAST 5 YEARS, BRAZIL HAS BECOME A MAJOR EXPORTER OF FOOTWEAR, MOSTLY TO THE U.S. BUT ALSO TO INDUSTRIALIZED NATIONS IN EUROPE. THE COUNTERVAILING DUTIES IMPOSED BY U.S. ON BRAZILIAN SHOES TO THE U.S. HAVE NOT HURT EXPORTERS TO ANY SIGNIFICANT DEGREE, ALTHOUGH THERE HAVE SPURRED SUSTAINED EFFORTS IN THE PAST YEAR TO SEEK NEW MARKETS, ESPECIALLY IN AFRICA, WHERE CHEAPER PRODUCTS, ESPECIALLY CANVASS TOP SHOES, MAY SELL WELL.

II - TRENDS: (A) DOMESTIC PRODUCTION AND CONSUMPTION - LATEST OFFICIAL  
PRODUCTION FIGURES AVAILABLE COVER CY '73. ACCORDING TO IBGE FIGURES THE FOLLOWING VOLUME WAS RECORDED IN THAT YEAR: CHILDREN SHOES - 8.7 MILLION; MENS SHOES - 17.9 MILLION; LADIES SHOES - 18.4 MILLION FOR A TOTAL OF 45 MILLION PAIRS OF SHOES. LOCAL TRADE CONTACTS ESTIMATE THAT PRODUCTION IN 1974 BOOMED TO A TOTAL OF BETWEEN 70 AND 75 MILLION PAIRS WITH A VERY SUBSTANTIAL PART, PERHAPS NEARLY HALF, OF THIS OUTPUT GOING TO THE EXPORT MARKET. DESPITE INCREASED COSTS OF LEATHER, NEW MACHINES, AND FINANCIAL COSTS, IT WOULD APPEAR THAT PRODUCTION IN 1975 IS STILL RISING SO THAT LIMITED OFFICIAL USE

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BY THE END OF THE YEAR SOME 90 MILLION PAIRS OF SHOES MAY HAVE BEEN MANUFACTURED.

THE STATE OF SAO PAULO IS THE MAJOR SHOE CONSUMER IN BRAZIL AND ACCOUNTS FOR 23 PERCENT OF INDUSTRY SALES, FOLLOWED BY THE STATES OF RIO DE JANEIRO - 15.5 PERCENT; MINAS GERAIS - 12.6 PERCENT; BAHIA - 10.6 PERCENT; PARANA - 7.4 PERCENT; RIO GRANDE DO SUL - 6.5 PERCENT, AND GOIAS - 5 PERCENT. IN 1973 LOCAL CONSUMPTION WAS

APPROXIMATELY 25 MILLION PAIRS, IN 1974 CONSUMPTION MAY HAVE RISEN SOME 35 MILLION PAIRS WHILE IN 1975 LOCAL CONSUMPTION IS EEXPECTED TO RISE TO MORE THAN 40 MILLION PAIRS. A VERY ROUGH BREAKDOWN BY MAJOR PRODUCT CATEGORY INDICATES THAT APPROXIMATELY 76 PERCENT OF ALL SHOES MANUFACTURED IN BRAZIL ARE LEATHER SOLED AND LEATHER TOPPED, DRESS TYPE OR CASUAL; APPROXIMATELY 6.8 PERCENT ARE BOOTS AND WORK SHOES AND ANOTHER 6 PERCENT ARE CANVASS-TYPE RUBBER SOLED SHOES AND SNEAKERS.

(B) FOREIGN TRADE - BRAZIL DOES NOT IMPORT SHOES FROM ABROAD; RATHER, IT IS A MAJOR EXPORTER OF FOOTWEAR. THE TOTAL NUMBER OF SHOES EXPORTED BY BRAZIL IN 1973 WAS 19.9 MILLION; 1974 - AN ESTIMATED 32.4 MILLION, AND EXPORT SALES IN 1975 MAY BE AS HIGH AS 50 MILLION PAIRS. REVENUE GENERATED FROM EXPORT SALES WAS \$28.6 MILLION IN 1971; \$53.9 MILLION IN 1972; \$90.4 MILLION IN 1973; A PROJECTED \$120 MILLION IN 1974. THE U.S. IS BY FAR BRAZIL'S MOST IMPORTANT CUSTOMER. IN 1972 IT IMPORTED 87.7 PERCENT OF ALL SHOES EXPORTED FROM BRAZIL, ACCOUNTING FOR 13.7 MILLION PAIRS OF SHOES VALUED AT \$47.4 MILLION. IN 1973 THE U.S. IMPORTED \$81 MILLION WORTH OF BRAZIL'S FOOTWEAR, NOT INCLUDING RUBBER SOLED SHOES OR NEARLY 89 PERCENT OF BRAZIL'S TOTAL SHOE EXPORTS FOR THAT YEAR. TRADE CONTACTS HERE ESTIMATE BRAZILIAN SHOE SALES TO THE U.S. IN 1974 AT \$90 MILLION, APPROXIMATELYTVUY PERCENT OF TOTAL BRAZILIAN EXPORTS OF FOOTWEAR. THIS SLIPPAGE IN PERCENTAGE TERMS WAS OFFSET BY INCREASED SALES TO CANADA, GREAT BRITAIN, SOME LAFTA NATIONS AND AFRICA. BRAZIL'S MAJOR COMPETITORS IN THE EXPORT MARKET HAVE BEEN AND CONTINUE TO BE ITALY, SPAIN AND ARGENTINA. SPAIN ENJOYS PREFERENTIAL TREATMENT WITHIN THE EUROPEAN COMMON MARKET OF WHICH ITALY IS A MEMBER. NEVERTHELESS IT WOULD APPEAR THAT BRAZIL HAS MADE SOME INROADS IN THE CHEAP SHOE MARKETS OF EUROPE AT THE EXPENSE OF ITALY AND SPAIN.

OF THE HUNDREDS OF SHOE MANUFACTURING PLANTS IN BRAZIL, ONLY 80 LIMITED OFFICIAL USE

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 IO-10 ISO-00 AGR-05 CEA-01

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STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 XMB-02 OPIC-03 /120 W  
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P R 171230Z SEP 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 1547

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

USDEL MTN GENEVA

AMEMBASSY ROME

AMEMBASSY BUENOS AIRES

AMEMBASSY MADRID

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AMEMBASSY TAIPEI

AMCONSUL PORTO ALEGRE

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AMCONGEN RIO REPORTS THAT THEIR SOURCES CONFIRM THAT THIS YEAR'S EXPORTS TO THE U.S. ARE WAY UP OVER LAST YEAR. THEY ESTIMATE SALES AT OVER U.S. \$120 MILLION ANNUALLY, PERHAPS AS HIGH AS \$150 MILLION. JANUARY-JULY 1975 EXPORTS TOTALLED \$72 MILLION. THE INCREASE IS ATTRIBUTED TO A PICK-UP IN U.S. DEMAND AND THE FACT THAT U.S. SUPPLIERS HAD ALLOWED INVENTORIES TO DROP TO VERY LOW LEVELS AND WERE UNABLE TO SUPPLY THE MARKET. ALSO, OTHER FOREIGN SUPPLIERS, PRINCIPALLY ITALY, HAVE BEEN CAUGHT IN A PRICE SQUEEZE AND LABOR TROUBLES.

RIO SOURCES INDICATED THAT MOST OF THE BUYING IN BRAZIL IS DONE  
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THROUGH LOCAL AGENTS OPERATING ON A COMMISSION BASIS. THERE ARE MAJOR EXCEPTIONS TO THIS RULE, THE LARGEST BEING THE SUMITOMO TRADING COMPANY WHICH MAINTAINS AN OFFICE IN THE SOUTH. SUMITOMO IS ALLEGED TO PURCHASE UP TO \$40 MILLION OF SHOES FOR RESALE TO CHAIN STORES AND DISTRIBUTORS IN THE U.S. THE OTHER LARGE DIRECT PURCHASER WAS REPORTED TO BE A MR. MARCHAND WHO OPERATES OUT OF SAN JUAN. IN SOME INSTANCES, LARGE AMERICAN SHOE MANUFACTURERS THEMSELVES ARE REPORTED TO PURCHASE DIRECTLY TO SUPPLEMENT

DEFICIENCIES IN THEIR DOMESTIC LINES.

RIO SOURCES CLAIM THAT EFFORTS ARE BEING MADE TO DIVERSIFY SALES TO OVERSEAS MARKETS. EUROPE APPEARS TO BE THE MAIN AREA SELECTED BUT OTHER COUNTRIES IN LATIN AMERICA COULD ALSO BECOME MARKETS FOR BRAZILIAN SHOES. THE USSR IS ALSO LOOKED UPON AS A LARGE POTENTIAL MARKET. THE SOVIETS HAVE PURCHASED SMALL QUANTITIES (UP TO 60 THOUSAND PAIRS) TO DATE BUT THIS IS CONSIDERED AS EXPLORATORY - TO JUDGE QUALITY AND PRICE. THE SOVIETS ARE APPARENTLY DEALING THROUGH BRASPETRO, THE PETROBRAS SUBSIDIARY IN ARRANGING SHOE PURCHASES. THIS ARRANGEMENT MAY HAVE COME ABOUT THROUGH SOVIETS' STATE TRADING COMPLEX AND THE NEED OR DESIRE TO HAVE A GOVERNMENT-TO-GOVERNMENT RELATIONSHIP. ONE OTHER POSSIBILITY IS THAT THE SOVIETS MAY WISH TO IMPORT BRAZILIAN SHOES ON A BARTER BASIS.

RIO SOURCES CLAIM FURTHER THAT THE DOMESTIC SHOE MARKET HAS PICKED UP CONSIDERABLY. PROFITS WERE SAID TO BE HIGHER ON DOMESTIC SALES. FURTHERMORE, PRICES ARE BEGINNING TO RISE. THIS PRICE RISE WAS LAID TO INCREASED COST OF LEATHER. THE TANNERIES ARE TAKING ADVANTAGE OF INCREASED DEMAND TO INFLATE PRICES. ACCORDING TO RIO SOURCES, IF LEATHER PRICES IN BRAZIL CONTINUE TO RISE, BRAZILIAN SHOE EXPORTS TO U.S. MAY DECLINE OWING TO PRICE FACTORS ALONE. SHOE EXPORTS TO U.S. WERE SAID TO BE HIGHLY VULNERABLE TO PRICE FLUCTUATIONS. GREECE IS NOW LOOKED UPON AS A MAJOR COMPETITOR.

EXPORTERS CONSULTED GAVE ASSOCIACAO COMERCIAL IN NOVO HAMBURGO AS BEST SOURCE FOR DETAILED INFORMATION ON INDUSTRY.

AMCONGEN PORTO ALEGRE OBSERVES THAT THE ABOVE PRODUCTION FIGURES DO NOT INCLUDE "BOOTLEG" SHOES MADE IN HUNDREDS OF COTTAGE INDUSTRIES THAT ESCAPE THE TAX COLLECTOR. PORTO ALEGRE SOURCES ESTIMATE THAT LIMITED OFFICIAL USE

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UP TO HALF OF TOTAL BRAZILIAN SHOE PRODUCTION FITS THIS DESCRIPTION. THUS, TOTAL 1974 SHOE PRODUCTION IS ESTIMATED AT 140 MILLION PAIRS RATHER THAN TO THE 70/75 MILLION ESTIMATED BY OFFICIAL SOURCES CITED ABOVE. IT SHOULD BE NOTED THAT NONE OF THE ILLEGAL PRODUCTION ENTERS THE EXPORT MARKET.

PORTO ALEGRE ALSO NOTES A JULY VISAO ARTICLE QUOTING CACEX/IBGE SOURCES AS ESTIMATING U.S. IMPORTS OF BRAZILIAN SHOES AT \$120 MILLION IN 1974.

III - GENERAL OUTLOOK - THE GENERAL TREND WHICH HAS ACCELERATED IN THE PAST THREE YEARS HAS BEEN TOWARD THE ELIMINATION OR ABSORPTION OF SMALL COTTAGE INDUSTRIES BY LARGER MANUFACTURING FIRMS. THE END RESULT MAY BE THAT WITHIN A FEW YEARS VERY LARGE, WELL ORGANIZED, WELL EQUIPPED AND EFFICIENTLY MANAGED MANUFACTURERS

WILL EMERGE, WITH PRODUCTION CAPACITIES SUFFICIENT NOT ONLY TO COPE WITH THE RISING LOCAL DEMAND BUT ALSO FOR WHAT BRAZIL HOPES TO BE A CONTINUALLY EXPANDING EXPORT TRADE. IT IS NOTED THAT AMCONGEN PORTO ALEGRE FEELS THAT THE INDUSTRY WILL REMAIN ESSENTIALLY FRAGMENTED FOR SOME TIME TO COME AND THEREFORE THIS TOPIC MAY BEST BE ADDRESSED IN THE ANNUAL CERP B REPORT.

STARTING IN 1973 EXPORT CONSORTIA WERE FORMED IN ORDER TO MEET VERY LARGE ORDERS PLACED BY FOREIGN IMPORTING FIRMS. THIS SYSTEM WILL CONTINUE TO FLOURISH FOR THE NEXT SEVERAL YEARS, AT LEAST UNTIL A FEW VERY LARGE LOCAL MANUFACTURERS ARE ABLE TO COPE ALONE WITH EXPORT ORDERS RATHER THAN TO BE FORCED TO GROUP THEIR OUTPUT WITH THAT OF THEIR DOMESTIC COMPETITORS. LARGE SCALE INVESTMENTS IN NEW EQUIPMENT WILL BECOME INCREASINGLY NECESSARY AS DEMAND ABROAD AND IN BRAZIL BECOMES MORE SOPHISTICATED. HOWEVER, IT SHOULD BE EXPECTED THAT MOST OF THE MACHINERY AND EQUIPMENT REQUIRED WILL BE PRODUCED LOCALLY RATHER THAN IMPORTED. THE VERY SUBSTANTIAL EXPORT INCENTIVES THE GOB HAS EXTENDED TO THE INDUSTRY WILL DOUBTLESSLY BE MAINTAINED FOR SEVERAL YEARS TO COME ALTHOUGH IT IS NOT KNOWN WHETHER THEY WILL KEEP THE SAME FORM OR BECOME MORE INDIRECT.

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## Message Attributes

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